■ SETTING CEO PAY • HOW TO WIN THE DRUG WAR • BUSINESS HALL OF FAME ■

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MARCH 12, 1990

FORTUNE

IS YOUR COMPANY ASKING TOO MUCH OF YOU?

Yes! say more and more managers—but chief executives don't agree

Tom Klein, 38, left a high-stress career at McKinsey to run his family's California food company.

PLUS
WHY NATIONS TRIUMPH
Excerpts from Michael Porter's new b...

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FORTUNE

"It used to be that 60-hour workweeks gave you warrior status, but the trend is reversing. People are saying that 60-hour weeks mean something is wrong." PAGE 38

ABOVE: Bonnie Stedt works 12-hour days in her office at American Express Travel Related Services in Manhattan. Photographed by Rob Kinmonth.

COVER: Tom Klein chucked high pressure for his family's business, including this vineyard where he was photographed by George Steinmetz.

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Corporate restructuring and heightened competition have left managers working harder than ever—sometimes way too hard. Warning: The troops are beginning to get restless. *by Brian O'Reilly*

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"Negotiating with one's self seldom produces a barroom brawl."

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"I'm in favor of due process. But that kind of slows things down."

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"Nothing has contributed to the drift in American industry more than ebbing rivalry."

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"If we can get our act together in Asia—well, to hell with Europe!"

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"What you do is digest the information and then give them [the customers] what you think they ought to have."

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"We only go into countries where free enterprise is given a crack."

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EDITOR'S DESK

MOST AMERICANS think the biggest problem facing the nation today is drugs. President Bush has just attended a drug-fighting summit in Colombia, stronghold of the cocaine cartels. But dramatic diplomacy is only a small part of the solution, writer Louis Kraar discovered in reporting "How to Win the War on Drugs" (page 70). Says Kraar: "Most of the prescription for victory lies much closer to home—in our neighborhoods, schools, and courts."

To find out what works and what doesn't, Lou Kraar and reporter Laurie Kretchmar interviewed politicians, law enforcement professionals, doctors, and social scientists across the U.S. "People usually associate drugs with crime," says Kraar, "but that overlooks the complex social, medical, and hundreds of other aspects of the problem." Kretchmar, who wrote the accompanying box on the Phoenix House treatment centers, got a close-up look at the ravages of drugs. She talked with drug abusers and to doctors developing medications to help cure addicts.

JOHN S. ABBOTT (2)

Kraar: finding a remedy for the drug problem

A member of FORTUNE's board of editors and a 30-year veteran newsman, Kraar also tackled the federal government's bureaucratic maze. "The problem in Washington is that no one agency is specifically in charge," he concludes. He interviewed officials at eight agencies, including the State Department and U.S. Customs. Most were eager to talk. "Our toughest problem was contradictory information," says Kraar. Cutting through those complexities, FORTUNE offers a workable prescription for dealing with illicit drugs.

Fierman: uncovering the mysteries of CEO pay

By contrast, associate editor Jaclyn Fierman often met chilly silence in reporting "The People Who Set the CEO's Pay" (page 58), about compensation committees of corporate boards. Many committee members and most CEOs refused to talk about what goes on behind the boardroom's closed doors when it's time to set pay for a company's highest executives. Perhaps with good reason: Some who did talk were unaware of provisions in compensation packages they had approved.

With the help of reporters Andrew Erdman and Jacob Park and FORTUNE intern Hsiao-hui Yang, Fierman interviewed dozens of committee members, aggrieved shareholders, and consultants who analyze pay packages, an eye-glazing exercise in translating doublespeak. Says she: "I talked to lawyers who admitted that proxy statements are intentionally unintelligible to keep shareholders and competitors in the dark."

As Fierman reports, compensation committee members live with powerful conflicts: "They may have gone to school with the CEO, or they live down the block from him. It's hard to maintain objectivity." I think you will agree that opening these committees to the light, as Fierman does, is good medicine for companies and their shareholders.

Marshall Loeb

MANAGING EDITOR

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BRIAN SMITH

Raider Irwin Jacobs in his ark: having fun looking at opportunities

gunwales in red ink. He paid 30 cents to 40 cents on the dollar for the bonds, which were issued in 1988 at par. Says Jacobs: "It's great fun to sit here and look at the opportunities. I'm glad I'm still potent." Financially, that is.

Carl Icahn has been buying the bonds of debt-laden **Leaseway Transportation**, a trucking company. Icahn also has been snatching up bonds issued in 1988 by **TWA**, the airline he owns and runs, paying between 48 cents and 53 cents on the dollar.

Mergers could follow both moves. They make strategic sense: Icahn also controls **ACF Industries**, a railcar-leasing company. Jacobs owns **Genmar Industries**, which manufactures boats.

The market in bonds rose after **Drexel Burnham Lambert Group**, the architect of junk financing, filed for Chapter 11 protection (see Money & Markets). Investors must now evaluate securities on their underlying creditworthiness and not on Drexel's ability to shuffle paper among clients. That opens up some of the action. **– Brett Duval Fromson**

TOY WARS IN JAPAN

■ "Unfair!" So goes the rallying cry of thousands of Japanese toy shop owners—mostly mom and pop entrepreneurs—who are angry at **Toys "R" Us**'s plans to open some 100 stores throughout their country. Many of these stores will be sharing parking lots—and, hence, drawing power—with **McDonald's** outlets. McDonald's is investing in the venture.

U.S. Trade Representative Carla Hills casts the toy company as a pioneer trying to break the stranglehold that small, inefficient retailers and wholesalers have over much of Japan's retailing. The owners of Japan's tiny toy stores argue that Toys "R" Us would put them out of business. They are pressuring local chambers of commerce to at least slow down the arrival of Toys "R" Us.

TOSHI DATO

Making a sale in a Tokyo suburb

But Toys "R" Us has some powerful supporters. Toy manufacturers think the U.S. company could help build the domestic market. Discount chains, whether or not they sell toys, would like to end small competitors' influence over where the chains can open. The Ministry of International Trade and Industry, which has been quietly reining in local chambers of commerce for the past year, also wants to open up the market. **– Susan Moffat**

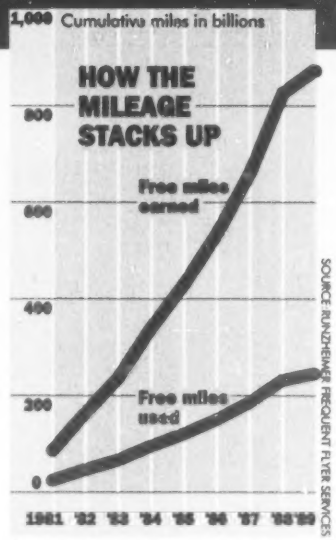
WHOSE FREQUENT-FLIER MILES?

■ Since the airlines launched frequent-flier programs a decade ago, passengers have earned enough free miles—875 billion—to go to the moon and back almost two million times. In fact, they've been accumulating the free miles much faster than they fly them (see chart).

Business travelers usually consider the awards no more than a just reward for the rigors of air travel. Even so, some corporations have long kept frequent-flier miles for themselves. Among them, **Boeing**, **Chrysler**, and **Chemed**, a Cincinnati chemical company. Ken Heldt, managing director of **Frequent Flyer Services**, a group that tracks these awards for corporations, estimates that travel costs are rising at 20% a year. That may spell the end of travel perks for traveling executives: More and more companies are looking at frequent-flier miles as a way to stretch their budgets.

Savings can be dramatic. Boeing gets back about $1 million a year on a $100 million travel budget. Says Chemed's travel manager, Margie Crace, who is also president of the National Business Travel Association, a professional group: "I don't believe most companies realize how much money is going down the drain." Even so, she has compassion for the business traveler whose company keeps frequent-flier miles: "It's like taking food from the mouths of children."

Well, not always, particularly if the child wants to cheat. Tracking the awards for thousands of employees, each of whom may be flying several different airlines, can turn out to be a statistical nightmare. Besides, the biggest hurdle for cost-cutting travel managers may be getting the support of the CEO. Assuming the absence of a corporate jet, the CEO is often the most frequent flier of them all. **– Mark Alpert**



Companies want those free trips

BASEBALL: BE PAID AS YOU PLAY

■ This year baseball fans should be singing, "Take me out to the lockout." The 26 major league team owners announced in January that they wouldn't open their spring training camps until they reached a new labor agreement with the players. The owners want to link player salaries to gate receipts and broadcast revenues, as the National Basketball Association did in 1985. Bud Selig, president of the Milwaukee Brewers, calls it a "fundamental change." It's much too fundamental for the players. Even baseball commission-

A giant's pay for Will Clark?

BILL SMITH—SPORTS ILLUSTRATED

THE HIGHEST-PAID BATTERS*

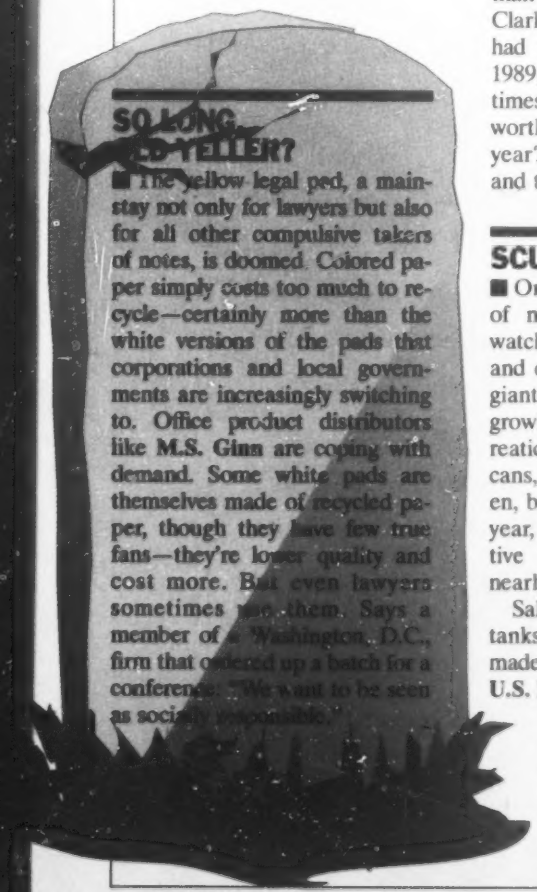
PLAYER	YEARLY PAY in millions	HITS '89 season	COST PER HIT
Will Clark San Francisco Giants	$3.75	196	$19,133
Eric Davis Cincinnati Reds	$3.1	130	$23,846
Joe Carter San Diego Padres	$3.07	158	$19,430
Ricky Henderson Oakland Athletics	$3.0	148	$20,270
Kirby Puckett Minnesota Twins	$3.0	215	$13,953
Kent Hrbek Minnesota Twins	$2.8	102	$27,451

*As of 2/15/90.

er Fay Vincent isn't sold. He has asked the owners to do what bureaucrats do: Study the idea some more. Vincent thought even less of a complicated plan to pay players according to how well they play during their first six years in the major leagues. He wants that idea dropped entirely.

The owners admit their clubs make money—revenues were over $1 billion last season—but they fear that player pay will spiral out of control. The eternal question: How much are dese bums really worth?

One way to measure a batter's value is to calculate the cost of each hit. (For how the six top-paid sluggers rate, see table.) But such statistics don't tell the full story. The Twins' Kirby Puckett seems to be delivering the most swat for the buck with 19 more hits last season than top-paid Will "the Thrill" Clark of the Giants. But Puckett had only nine home runs in 1989; the Thrill homered 23 times. Does that make Clark worth the extra $750,000 per year? You figure it out, fans—and then call the owners. **-M.A.**



SO LONG, YELLER?

■ The yellow legal ped, a mainstay not only for lawyers but also for all other compulsive takers of notes, is doomed. Colored paper simply costs too much to recycle—certainly more than the white versions of the pads that corporations and local governments are increasingly switching to. Office product distributors like **M.S. Ginn** are coping with demand. Some white pads are themselves made of recycled paper, though they have few true fans—they're lower quality and cost more. But even lawyers sometimes use them. Says a member of a Washington, D.C., firm that ordered up a batch for a conference: "We want to be seen as socially responsible."

SCUBA BOOM

■ Once the exclusive domain of macho-suicidal types who watched *Sea Hunt* on television and dreamed of wrestling with giant octopuses, scuba diving is growing fast as a national recreation. About 400,000 Americans, one-third of them women, became certified divers last year, bringing the total of active plungers in the U.S. to nearly three million.

Sales in the U.S. of fins, air tanks, and other scuba gear made by such manufacturers as **U.S. Divers**, **Dacor**, and **Scubapro** have been growing at 8% a year since 1985, reaching $500 million in 1989. Exports are rising at 20%. Diving in such exotic destinations as Belize, Bonaire, and the Cayman Islands is also booming. Closer to home, the waters of John Pennekamp Coral Reef in the Florida Keys have become a mecca for vacationing executives wearing wet suits. Says park manager George Jones: "The demographics of the visitors have changed dramatically in the past five years." **-M.A.**

FRINK: THE STOCK MARKET

New divers take classes in the Florida Keys.

THE SOUL OF IBM'S NEW MACHINE

■ What **IBM** *really* needs is a hot new machine. So runs the conventional wisdom on the company, which just came off a depressing year with earnings down 35%, market share shrinking, and 10,000 jobs now vanishing. The new line of Risc System/6000 workstations may be just what the doctor ordered.

The long-awaited computer, which will compete with popular workstations from **Sun Microsystems** and **Digital Equipment**, has had rave reviews from industry analysts for its price and performance. Costing $12,995 and up, Big Blue's machine can run software developed by **Next**, Steve Jobs's workstation company. Next's new hardware will compete with the IBM machine, but that doesn't seem to worry either outfit. Says Nick Donofrio, head of IBM's advanced workstations division: "Steve has told us that he'd rather have a piece of a bigger pie than all of a smaller pie."

Scientists and engineers used to be the principal users of workstations, but executives increasingly are turning to them because of their extra power. IBM's previous workstation offering, the RT, was judged too weak in number crunching. Customers preferred Sun's Sparcstation and DEC's Vaxstation. But IBM brags that its new entry handily outperforms all major competitors. Says Donofrio: "We learned a lot from our experience. It's made us hungrier." **-M.A.**

U.S. INVENTS, JAPAN PROFITS (AGAIN)

■ A paperless society? Don't believe it. Copy machines will be spewing out more paper than ever in the 1990s—and more of them will be doing so in color. **Dataquest**, a San Jose, California, market research firm, predicts revenues from color photocopiers, supplies, and service will rocket from $260 million in 1988 to $1.7 billion in 1993 (see chart). Reason: the widespread use of chromatic printers and plot-

BY ANDREW EVAN SERWER

BIOTECH STOCKS ARE POISED TO PAY OFF IN THE 1990s

■ Forget about price/earnings ratios. Forget about book value, hidden assets, or other traditional measures of value. Instead, think about potential, about sky's-the-limit growth. If that kind of investing doesn't make you queasy, you're ready to look at biotechnology stocks, a group that many Wall Streeters believe holds more promise for the 1990s than any other.

Biotechnology is still an infant industry. The entire market capitalization of biotech pharmaceutical companies amounts to only 5% of the drug industry's capitalization. But analysts say that the companies are about to release some blockbuster products that will generate explosive earnings growth and power a long run in the stocks. Rising sales and earnings won't be the only fuel. The proposed purchase of 60% of industry leader **Genentech** for $2.1 billion by Swiss pharmaceutical giant Roche Holding Ltd., parent of Hoffmann–La Roche, suggests takeovers may play a role as well.

Valuing biotechnology stocks is a bit trickier than sizing up companies with a long track record. Because so few show any earnings to speak of, analysts determine value by measuring a company's market capitalization against its potential product stream. That may sound like dreamy-eyed investing, but analysts insist that it's the only way to play. Says Teena Lerner, a biotech analyst at Shearson Lehman Hutton: "If you wait for earnings with these stocks, you will miss a major part of their move."

A company that has analysts particularly excited is **Chiron**, which recently identified a new type of hepatitis and should receive clearance from the Food and Drug Administration this year to market a test that would detect the disease. Like many other biotech firms, Chiron will team up with a major pharmaceutical house, in this case Johnson & Johnson, to sell the product. Analysts say the test could generate revenues of $200 million a year by early 1992 and help push the company into the black.

Amgen is already churning out profits, thanks to strong sales of erythropoietin, or EPO, a human hormone that stimulates the production of red blood cells and is used to treat anemia. Product sales have gone from $2.8 million in the fiscal year ended last March to an estimated $140 million this year. Amgen is also testing G-CSF, a drug that promotes the manufacture of white blood cells, which would greatly benefit chemotherapy patients.

Most analysts see Amgen earning around $1.25 per share in fiscal 1990 and up to $2 next year. Despite that rosy forecast, the stock has stalled out in recent months. Investors are concerned about a suit **Genetics Institute** filed against the company, alleging patent infringement. But analysts note that a settlement appears imminent, and a worst-case scenario is already discounted in Amgen's stock price.

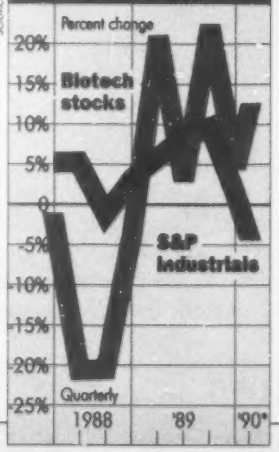
Although Genetics Institute is still reporting losses, many money managers believe it is one of the least risky biotech stocks. "GI has a diversified group of products, which protects it in case one doesn't work out," says Edward Owens, who runs $80 million for Wellington Management in Boston. One of the most promising products in its medicine chest is synthetic Factor VIII, a blood-clotting agent needed by hemophiliacs. The company also makes t-PA, a blood clot dissolving agent, and a product that promotes the production of white blood cells. None of these are on the market, though all should be approved within two years. Analysts think the company could show a profit in 1991.

Jon Hickman, a money manager with Wells Fargo & Co. in San Francisco, has high hopes for **XOMA**, which has a promising drug nearing FDA approval. Xomen-

JOHN HARDING

Biotechnology investors have been bounced around during the past two years. But major breakthroughs, like Chiron's new hepatitis test, could inject new life into the stocks.

BIOTECH'S BUMPY ROAD



*through February 15.

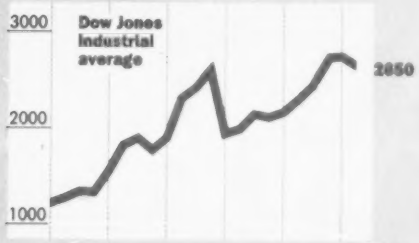
SOURCE: PAINE WEBBER

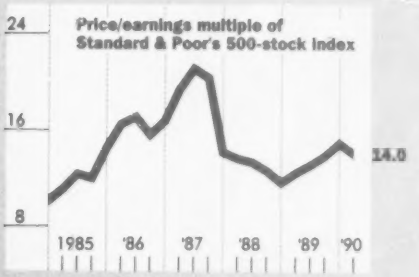
COMPANY Market capitalization in millions	REVENUES in millions	NET INCOME in millions	STOCK PRICE RANGE Recent price
Genentech $2,254.2	$400.5	$44.0	$16.75–$30.88 $26.75
Amgen $891.1	$155.7	$3.8	$35.75–$60.25 $52.00
Genetics Institute $480.5	$43.6	($28.7)	$18.50–$36.50 $34.00
Chiron $400.4	$35.1	($19.3)	$16.00–$34.50 $25.50
Biogen $348.3	$40.9	$3.2	$9.25–$19.00 $15.50
XOMA $270.0	$5.8	($13.3)	$13.00–$26.50 $20.25

*Latest four quarters.

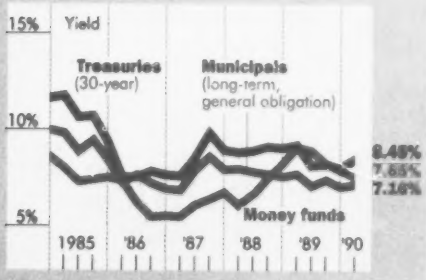
STATE OF THE MARKETS

Stocks

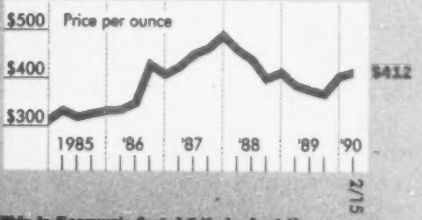




Bonds



Gold



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This is Fortune's fortnightly look at the major markets of the past five years

CHARTS SHOW END-OF-QUARTER FIGURES.

BASED ON EARNINGS FOR THE LATEST FOUR QUARTERS.

SOURCES: STANDARD & POOR'S, BOND BUYER, DONOGHUE'S MONEY FUND REPORT, COMMODITY EXCHANGE

E5 treats sepsis, a potentially fatal bacterial infection that causes 80,000 deaths a year. This drug should get the green light in 1990 and could be a $300-million-a-year seller within a few years.

Biogen reported its first profit only last year. The company collects royalties from its partner Schering-Plough on sales of alpha interferon, used abroad for treating hepatitis. The treatment should soon receive approval for use in the U.S. Another partner, SmithKline Beecham, is about to market a new hepatitis vaccine that incorporates technology on which Biogen holds patents. In return, Biogen will receive royalties from the sales. Lerner of Shearson Lehman thinks Biogen earnings could grow from a penny a share in 1989 to more than a dollar a share by 1992.

The granddaddy of biotech, Genentech, has grown even more powerful since it announced its tie-up with Roche Holding. Says Denise Gilbert, biotechnology analyst at Montgomery Securities: "The Roche deal will provide Genentech with $600 million in cash, making it an even more formidable competitor." Though Genentech is more than twice as big as its nearest rival and has four products on the market, the stock has languished below $30 since mid-1988, after topping $60 in late 1986.

It may now be time to buy. The agreement between Roche Holding and Genentech gives the Swiss company a five-year option to pick up the remaining 40% of Genentech it doesn't own. Most analysts believe Roche will buy, which, given the agreed-upon price, would generate an annualized return of more than 20%. That's the perfect antidote to an anemic portfolio.

MUTUAL FUNDS THAT OFFER STOCKS AT A DISCOUNT

■ Whoever said there's no such thing as a free lunch never heard of discounted closed-end mutual funds. Unlike open-end funds, whose share prices always reflect the value of the underlying portfolio, closed-end funds can be priced far above or below the value of the fund's assets. When a discount develops, opportunity beckons. Says W. Douglas Dent, co-editor of *Frank Cappiello's Closed-End Fund Digest*: "It's a great deal. You pay $8 for $10 worth of stocks."

The discounted funds are especially appealing now because some of them may soon switch to open-end status or even liquidate. Either move would result in a capital gain, since the fund's shares would shoot up to par to reflect the new status.

Liberty All-Star Equity Fund, which at $7.75 a share trades at a 15.9% discount to net asset value, will switch to open-end status in the first half of 1993 if a simple majority of shareholders votes to do so, a strong probability if the discount persists. For investors who want to get in early while the discount is still fat, Liberty's well-diversified portfolio, which is heavily weighted with such big-cap stocks as Philip Morris and Exxon, makes an attractive place to park money. In 1989 the fund returned 28%, vs. the 24% average for all equity mutual funds.

Counsellors Tandem Securities Fund, a closed-end stock fund that invests mainly in utilities, may open even earlier. Its board of directors recently announced that it would poll shareholders April 10 to see how many want to switch to open-end status. If two-thirds do, the board will call a special meeting to take a binding vote on the question. Though the fund's board denies acting under pressure, analysts say the move comes at least partly in response to prodding from Sequoia Partners, an investment group holding a 22% stake in the fund. At $10.25 a share, Counsellors Tandem trades at a 13.8% discount to net asset value.

– Karen Nickel

GROWING OLD WITHOUT GROWING POOR

■ Do you have enough stashed away for your old age? Consider this: Within 20 years the average life expectancy of a 65-year-old is expected to grow to 81 for men and 86 for women. So if you think that you have stored up enough in pension and savings to last till the very end, you may have to think again.

Fortunately, insurance companies, which love to fiddle with actuarial tables, have been putting out products aplenty that can help you live a long life without pinching pennies or becoming a financial burden to your children. The policies aim to put extra cash in your pocket just when your income might be trailing off

STOP WHINING AND GET BACK TO WORK

You say you're toiling like a galley slave? America's top corporate chiefs think your workweek looks like a picnic compared to what's ahead in the age of global competition. ■ *by Sally Solo*

WITH U.S. MANAGERS working harder than ever, many have got to wonder whether relief is in sight (see preceding story). The answer from their bosses: Forget it. Far from easing up, CEOs overwhelmingly believe that large American companies will have to push executives *even harder* to keep up with global competition. That's the bad news. The good news is that the chiefs also understand that to get more from managers, their jobs must be made more rewarding, with more incentives and greater autonomy.

These are among the findings of the latest FORTUNE 500 CEO Poll. Clark Martire & Bartolomeo, an independent opinion research firm, conducted the survey between January 16 and 25. Some 206 CEOs of FORTUNE 500 and Service 500 companies answered our queries.

The CEOs don't doubt that their managers are already working harder than they used to. Almost two-thirds of those polled say their executive subordinates work longer hours today than ten years ago. They've had to, say the chiefs, because of restructuring and increased competition. Texaco CEO James Kinnear says heads of companies must "set objectives and monitor employee performance—and if that leads to longer hours, then so be it!"

How hard do you have to work for one of these bosses? Real hard. On average, they figure a high-level executive should work about 54 hours a week, and nearly a third of them think such an executive should work over 60 hours a week. Most of them think middle managers should work at least 50 hours a week. If that strikes you as too demanding, don't look for sympathy from these CEOs: They say they put in an average of 61 hours a week.

The chiefs don't foresee mass burnout among managers. Argues Kinnear: "It's self-correcting. People get tired and they go home." Nor does USX chief Charles A. Corry see any cause for alarm. "It always seems you operate in a crisis environment in business," he says. "The pace of management is quicker today, but the essence isn't different from what it was in the 1960s."

"Set objectives and monitor performance—and if that leads to longer hours, so be it!"

JAMES KINNEAR
Texaco

To be sure, a few CEOs believe that the pressure has become too intense and has to be lightened. Says David R. Carpenter, CEO of Transamerica Occidental Life Insurance: "We can't beat people into the ground anymore." San Francisco Federal Savings CEO Patrick Price adds, "We must recognize the signs when managers are being pushed too hard and help out with people, systems—whatever it takes."

Although the majority think managers are working harder than before and must work harder still, some also believe, a bit paradoxically, that an executive who spends all day and most of the evening at the office isn't necessarily a boon to the company. "I think it's absurd for business people to be

REPORTER ASSOCIATE *Sara Hammes*

Q A

Which of the following two statements comes closer to how you feel about the management of large U.S. companies?

Large U.S. companies will have to push their managers harder if we are to compete successfully with the Japanese and other global competitors	**77%**
As a result of restructuring and getting leaner, large U.S. companies are pushing managers too hard	**9%**
Not sure	**14%**

Q A

How many hours a week, on average, do you expect a high-level executive in your company to work? How many for a middle manager?

	High-level executive	Middle manager
40 hours or less	**2%**	**8%**
41–49 hours	**1%**	**21%**
50–59 hours	**58%**	**53%**
60–69 hours	**29%**	**9%**
Not sure	**10%**	**9%**
Average	**54 hours**	**49 hours**

Q A

Are executives in your company working longer hours than ten years ago, shorter hours, or about the same number of hours?

Longer hours	**62%**
Shorter hours	**2%**
About the same	**35%**
Not sure	**1%**

"Executives who work 80 hours a week are not likely to have the breadth of knowledge they ought to have."

WINSTON WALLIN
Medtronics

divorced from the community," says John Bryan of Sara Lee. Bryan estimates that he spends 20% of his time on good works, such as serving on the board of the University of Chicago. He requires similar commitments from his executives, even giving them time off from work for community service. He believes the "political and other" skills they acquire can then be applied back at the office.

Winston Wallin, CEO of Medtronics, also encourages altruism in his executives, with a measure of corporate self-interest in mind. "People get so focused on their own business," he says. "Executives who work 80 hours a week are not likely to have the breadth of knowledge they ought to have. Managers are likely to be more creative if they have a little balance in their lives."

So how do you get executives to compete more ferociously than ever—while maintaining balanced lives, of course? There were 206 different ideas about what kind of carrot and stick a company should use as motivation. One, offered only half facetiously by Sara Lee chief Bryan: "Fear as a motivator is pretty powerful these days." Most answers fell into three broad categories: Offer more money, offer more autonomy, and offer a sense of mission.

Fully 83% of the CEOs surveyed say they already give more incentive-based compensation to their managers than they did ten years ago. Asked what they could do to get more out of those executives, a CEO was most likely to say, "Become more incentive-oriented." Corry of USX explains, "It's a stimulating device. You get the manager to believe he can influence his own compensation." USX offers bonuses that may run up to 85% of an executive's base salary. Several CEOs touted employee stock ownership plans as a good way to give workers a stake in the company's success. "Employees as shareholders are very attractive," adds Bryan. "They have a slightly longer-term outlook."

Increasing the autonomy of managers serves two purposes in the age of the fat-free corporation. First, it means that whole layers of management, and the paperwork that goes with them, can be trimmed. Second, employees who feel trusted by the boss are freer and more willing to do what's best for the company. Says Hasbro CEO Alan G. Hassenfeld: "If you treat people well and they have responsibility and authority, they'll produce. People should be incentivized and excited about what they're doing, and they'll perform well." At PPG Industries "everyone is called a manager because each of us—engineer, truck driver, secretary, etc.—manages an asset or a function," says Chief Executive Vincent Sarni.

The same CEOs who advocate giving underlings a lot of leeway also emphasize the importance of giving them guidance and a reason to do what they do. "I call it the 'all singing the same song' theory," says U.S. Bancorp CEO Roger Breezley. Super Valu Stores CEO Michael Wright says, "People need to feel there's a purpose in their jobs. They need to know they're working for more than a paycheck." Super Valu Stores' purpose, Wright explains, is to help entrepreneurs—the store owners his company services—succeed.

The CEOs endorse another route to working better, one that's easier identified than followed: eliminating work that doesn't really need to be done. Complains Breezley of U.S. Bancorp: "We automate and automate and automate, and the paperwork still grows and grows. We are documented to death." Robert G. Sharp of Keystone Provident Life Insurance argues, "We should be putting people on the critical jobs that need to be either improved or eliminated. Managers should examine all functions on a must-have, not a nice-to-have, basis."

In Japan, when a worker dies from exhaustion, they call it *karoshi*, or "death from overwork." There may still be time to prevent the problem in the U.S. before things get bad enough to name it. But are CEOs interested in tackling the problem? F

Q A

On average, how many hours a week do you devote to your job?

Under 50 hours	2%
50–59 hours	28%
60–69 hours	45%
70–79 hours	21%
80 hours or more	4%
Average	61 hours

Q A

Is the amount of incentive-based compensation in your managers' pay packages greater than it was ten years ago, less than it was, or about the same?

Greater	83%
Less	2%
About the same	12%
Don't know	3%

Q A

How should large U.S. companies better manage their executives?

Become more incentive-oriented	27%
Encourage productivity, creativity, innovation, and risk taking	27%
Give them more autonomy and decentralize decision-making	21%
Get them to work smarter, not harder	20%
Recruit and train better-qualified people	13%
Develop a corporate culture or mission, plan for it, and communicate it	10%
Push managers to work harder	9%
Focus on the long term	8%
Encourage better communication	5%

Totals more than 100% due to multiple responses.

"People need to know they're working for more than a paycheck."

MICHAEL WRIGHT
Super Valu Stores

A HEARTLAND INDUSTRY TAKES ON THE WORLD

America's home appliance manufacturers have seen Paree. For their new rivals in Europe, life would have been simpler if they had stayed down on the farm. ■ *by Thomas A. Stewart*

NOTHING IS MORE American than household appliances. You'll find Maytag's home offices across the way from a seed store in Newton, Iowa. General Electric's appliance division is stabled a few furlongs from Churchill Downs, venue of the Kentucky Derby. Only 12 flights a day land in Benton Harbor, Michigan, home of Whirlpool. White Consolidated Industries (WCI) may be owned by Sweden's Electrolux, but its U.S. appliance headquarters is outside Columbus, Ohio. Each of the big four is nearer to a farm than to an international airport.

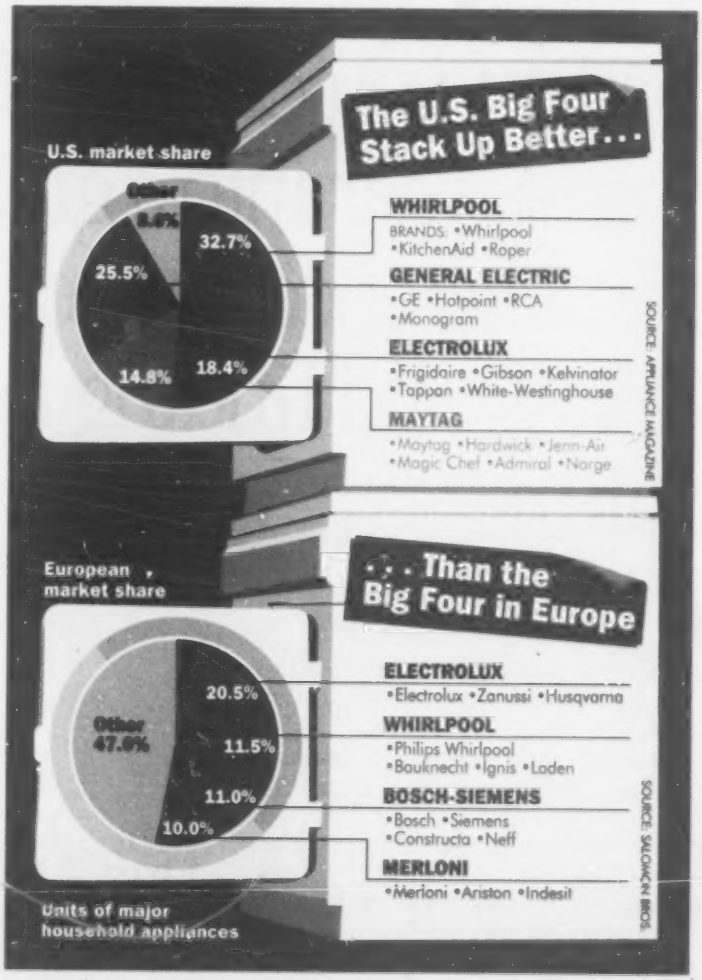
The market is all-American too. A quarter of the appliances sold at retail come from Sears, "America's store." Exports were just 6% of sales in 1989, and except for microwave ovens, imports scarcely exist. For traditional white goods—refrigerators, freezers, washing machines, dryers, ranges, and dishwashers—98% of what is sold in America is made in America.

But in little more than a year, these heartland companies have pumped out $1.2 billion to enter world markets, primarily in Europe. GE formed a joint venture with General Electric Co. (no kin), Britain's biggest appliance maker. Maytag swept up Chicago Pacific Corp., owner of Hoover, known in the U.S. for vacuum cleaners but in Britain and Australia for major appliances as well. On the Continent, Whirlpool became the No. 2 producer last year when it bought 53% of Philips' appliance business. And that's just the beginning; more investment in Europe—another billion or so—is yet to come.

As a result, the appliance makers suddenly—the three U.S. companies made their moves within weeks of one another—opened another front in the brutal war for market share. Theirs is a ferociously competitive industry, where everyone sweats the details of costs, margins, and brand positioning. Says Roger Schipke, GE's senior vice president of appliances: "This war will be fought in the trenches, with bayonets."

Why go global? Simple: After four decades of rising sales and relentless consolidation, the American white-goods business is no place to make serious money. The market is as mature as your great-aunt Maude. Unit sales plateaued at 28 million in 1987 and are expected to fall more than 2% in 1990, following housing into a demographic trough.

But couldn't these companies grow by knocking out the competition? No way. The big four are the survivors of a 40-year elimination tourney that made hard punchers like General Motors, Ford, and Westinghouse cry "No mas!" In 1945 there were 250 U.S. appliance makers; now, for every major appliance but microwaves, the big four control at least 88% of the market. Each has established itself with strong brands in all major appliances at all price points (see chart). Even WCI, a collection of castoffs like Westinghouse, Frigidaire, and Kelvinator, has begun to reposition its grand old names, making a coherent picture from what was, in the words of Kathryn Rudie Harrigan, a professor at Columbia's business school, "a crazy patchwork of junk." Without clearly defined brands, says Leif Johansson, who runs Electrolux's worldwide appliance operations, "you don't have a story to tell to the



Europe's home appliance market is ripe for an American-style consolidation. Among the hungry: GE/GEC (European market share: 5%) and Maytag (2%).

consumer and the retailer."

Nor can U.S. appliance makers prosper by cutting costs. They've already done that. Says Marvin Stern, Sears' vice president for home appliances and electronics: "The manufacturing efficiencies these guys have found are stunning." Since buying WCI in 1986, Electrolux has spent more than $500 million improving old plants and building new ones. GE automated its huge Louisville, Kentucky, plant in two major upgrades and, over a ten-year period, cut the work force in half while increasing output 30%. Walk through anyone's factory and you'll see big rolls of steel being stamped by machines as lonely as a Maytag repairman, and modest dumpsters slowly—very slowly—filling up with pieces of scrap not much bigger than coins. Appliance manufacturers are so good at the cost game that if they had been making the Chevy Caprice since 1980, its price would have gone from $7,209 to $9,500 (actual 1990 sticker price: $17,370).

Quality, too, is at an all-time high. Whirlpool boasts that service calls per 1,000 appliances dropped 50% in the 1980s, and the company vows to cut them in half again in the 1990s. Not surprisingly, operating margins have been squeezed; consumer prices are up 14.1% since 1986, but major appliances cost just 1% more. The operating margin at Whirlpool slid from 10.9% in 1984 to about 9.5% last year; at Maytag, from 19.5% to 11.5%. Nothing suggests WCI and GE, which do not break out appliance results, did better.

No wonder Europe looks tempting. As Europeans fill their homes with more appliances, sales should grow 4% a year—in a market already 25% bigger than the flat American market. And as trade barriers fall and product codes are standardized for 1992, appliances will become more pan-European, opening the door for large-scale manufacturing. The European industry, which has excess capacity and some 250 manufacturers, cries out for the restructuring that is mother's milk for the Americans and for Electrolux, which made a staggering 100 acquisitions in the 1980s.

All this change won't happen overnight. There are big differences between American and European appliances and, within Europe, strong national preferences. Americans make free-standing behemoths; Europeans prefer smaller built-ins. In France, 80% of washing machines are top-loaders; elsewhere, 90% are front-loaders. Nine out of ten German ranges are electric; elsewhere, gas is the rule.

Selling and marketing are far less consolidated than in the U.S. Only in Britain do big chains play a powerful role; mom and pop stores dominate in Italy, and kitchen-design specialists in West Germany. Despite strong national brands like France's Thomson and GEC's Hotpoint in Britain, no brand has more than 5% of the market.

For all these differences, Whirlpool CEO David Whitwam still says, "What strikes me most is how similar the U.S. and European industries are." The technology and materials are the same from Salonika to San Diego. Products are becoming more alike. Consequently, companies can buy steel and components on a global basis.

A year after their entry into Western Europe, the three American companies are ready to move in from the beach. For GE and Maytag, that first year was rough. The British market, their base, tanked last year as 15% interest rates drove sales down 3%. Maytag responded with a top-to-bottom restructuring: It dismissed hundreds of employees, revamped assembly lines, and exported its vaunted system of quality control and incremental, inexorable improvements.

Maytag's next move will be across the Channel. With long-term debt at 51% of capitalization, its only realistic option is a joint venture with a Continental manufacturer. But, says Frank Vaughn, president of Hoover Group, "wherever we go to talk—Thomson, AEG, Merloni, Ocean, Bosch-Siemens—GE has been too."

GE's Roger Schipke isn't just crossing the Channel. He is preparing a full-scale invasion. His goal is for European sales of white goods to match

JENNY NOVAK

With a flat home market, Whirlpool CEO Whitwam can wrap himself in many flags.

JAMES SCHNEPF

Maytag's Daniel Krumm has lifted quality. The challenge: to get profits back up.

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his $5-billion-a-year U.S. business by the mid-1990s; appliances now bring in $1.1 billion a year at GEC. To accomplish that, GE must turn itself into another Electrolux, assembling a constellation of companies, then looking for a way to manage them. The GE/GEC joint venture has a $400 million war chest. Schipke won't identify any targets, but Bosch-Siemens, with white-goods sales of $3.2 billion, would get GE a long way toward its goal.

Of the Americans, Whirlpool starts from the strongest position—and is taking the biggest gamble. By paying $361 million for 53% of Philips' appliance business, CEO Whitwam raised his debt to 43% of total capital. At the end of 1991 he's likely to get a bill for $580 million, when it's time to buy the rest of Philips' business. (According to their contract, the decision to sell the remaining 47% to Whirlpool can be made by either party.) Says Whitwam: "We can afford it."

"The only people who say you can't have a pan-European brand are the people who don't have one themselves."

Whirlpool will be trying to create the first truly global brand name in appliances. In January it renamed its flagship European brand Philips Whirlpool, and launched a $118 million advertising campaign to establish the new name. Some competitors question Whitwam's strategy, particularly since the company will have to drop the Philips name in 1998 and the brand will become simply Whirlpool. Says one competitor: "You can't find any example of someone building a mass-market brand from scratch."

OBVIOUSLY, Whitwam thinks he can: "The only people who say you can't have a pan-European brand are the people who don't have one themselves." To make Whirlpool International work, Jan Prising, an Electrolux alumnus who is its new head, is dismantling Philips' organization—a cumbersome matrix of manufacturing and marketing. He is substituting a product-line organization like the one recently installed in Benton Harbor. With three brands (Bauknecht, Philips Whirlpool, and Ignis) slotted at the top, middle, and low ends of the market—a structure identical to its U.S. triad—Whitwam is satisfied he has the brands and products he needs. "We all have the same steel, the same technology," he says. "The soft issues—management, accountability—are what differentiate us. They are the difference between winning and losing."

The company to beat is Electrolux, with more than 20% of the market and a strong presence in every country from Finland to Portugal. The first to foresee a global appliance business, Electrolux now owns Zanussi (Italy's biggest appliance maker), Thorn's appliance business in Britain, and three companies in Spain, in addition to WCI. Unlike the Americans, who think that the race to acquire European manufacturers has just begun, Electrolux believes it's essentially over. Says Leif Johansson: "Even if GE bought four or five companies, it would not dramatically change the picture."

What might change the picture dramatically, in Electrolux's view, is growing consumer demand in Eastern Europe. According to Joseph McGowan, president of WCI's major appliance group, Western Europe now has about 10% more factory capacity than it has demand. "If the East Europeans can get the currency," says McGowan, "that excess capacity will be wiped out overnight." McGowan also visited the Soviet Union in December, touring military plants that could be converted to white-goods production.

The battle plan for the global white-goods war is becoming clear. The toe-to-toe slugfest in the U.S. will continue. The European industry will consolidate—some say quickly, some say slowly, but the direction is certain. It will be ten years, predicts Frank Vaughn of Hoover, before "we'll be able to look up and see the players sorted out." By then, most in the industry agree, the landscape will be like America's: perhaps half a dozen players matched up in each market at every price point, battling for market share. Then, says Vaughn, "we'll make some money in this business."

But what if they can't? What if the American-style double bind of cost cutting and margin squeezing comes to prevail in Europe? Maytag CEO Daniel Krumm stares off in the direction of the Newton Seed Co. "If we can get our act together in Asia," he says, "well, to hell with Europe!" F

REPORTER ASSOCIATE *Wilton Woods*